

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Tecumseh District Library</u>	County: <u>Lenawee</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>September 23, 2004</u>	Date Accountant Report Submitted To State: <u>December 13, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature 			



Financial Report
with Supplemental Information

June 30, 2004

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Tecumseh District Library

Financial Report with Supplemental Information June 30, 2004

Tecumseh District Library

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Independent Auditor's Report

To the Board of Directors
Tecumseh District Library
Tecumseh, Michigan 49286

We have audited the accompanying basic financial statements of Tecumseh District Library as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of Tecumseh District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position and changes in financial position of Tecumseh District Library as of and for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and information on the Library's budget, including the budgetary comparison schedules identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 1, the Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003. As a result, these financial statements present entirely new financial information.

Plante & Moran, PLLC

September 23, 2004

A member of



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Tecumseh District Library

Management's Discussion and Analysis

This management's discussion and analysis of Tecumseh District Library's (the "Library") financial report provides an overview of the Library's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Library's financial statements which follow. Because this is the first financial report of the Library as a separate entity, and because the financial statements of the Library which follow are succinct and straightforward by their very nature, condensed comparative financial information will not be presented in this section.

The Library as a Whole

The Tecumseh District Library was formed on December 20, 2002 by two participating governmental units, the City of Tecumseh (the "City") and the Tecumseh Public School District (the "School District"). Until June 30, 2003, the School District was responsible for all expenses of the Library. In May 2003, a district-wide millage failed.

On July 1, 2003, the Library became a total independent entity. At that time, the Library reduced staff and hours of operation.

On October 4, 2003, the voters approved a 1.15 millage that would be in force for 10 years. The millage was collected and remitted to the Library by the City of Tecumseh and surrounding townships beginning in December.

The Library's primary source of revenue is property tax, which represents 64 percent of total revenue.

During the time covered by this audit, the Library curtailed expenses. The library director and adult services librarian positions were not filled and several other staff positions were left open. Collection expenses were lower than budgeted. In addition, equipment expenses, computers, and computer maintenance were minimal since computer access was curtailed due to staffing limits and the limits on the open hours.

The Library's Fund

There is no significant difference between the General Fund, modified accrual basis, and the full accrual basis. The most notable difference is the inclusion of depreciable and nondepreciable assets, which were transferred to the Library by the City and the School District on July 1, 2003.

The modified accrual basis of accounting is designed to present a shorter-term view of the Library's financial activity, with an emphasis on the flow of current financial resources and compliance with the State's budget requirements. The full accrual basis of accounting presents a longer-term view of the Library's activities by adding the long-term assets, such as land, building, equipment, and collection items, which provides a view of the Library's total economic resources.

Tecumseh District Library

Management's Discussion and Analysis (Continued)

The Library's major fund is the General Fund. The Endowment Fund represents funds received as a donation to the Library which the Library Board has committed to using within certain self-imposed guidelines. The Endowment Fund is reported within the General Fund.

Library Budgetary Highlights

The Library adopted three budgets during the audit year. The initial budget, adopted May 21, 2003, was an austerity budget necessitated by the failure of the millage in May. A second budget dated July 23, 2003 was adopted to assess the Library's expenses under full operation and in preparation for the millage election in October. A third budget was adopted on July 14, 2004 to bring the budget into conformity with the chart of accounts. There is no difference in the total budgeted amount in income or expenses between the second and third budgets.

Capital Assets and Debt Administration

The land, building, furniture, and collection were transferred to the Library by the City and the School District on July 1, 2003. At the end of the fiscal year, the Library had \$2,191,108 invested in land, building, furniture and equipment, books, and materials.

No debt was issued during the fiscal year. There were no long-term obligations undertaken during the year.

Economic Factors and Next Year's Millage Rate

On October 4, 2003, the voters approved a 10-year 1.15 millage. This will be decreased to 1.1472 by the application of the Headlee for the 2004-2005 tax collection year. In addition, because of a settlement between the City of Tecumseh and Lenawee Stamping, the Library will receive approximately \$4,600 less in millage for the 2005 tax year.

Tecumseh District Library

Governmental Fund Balance Sheet/Statement of Net Assets June 30, 2004

	General Fund - Modified Accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Net Assets - Full Accrual Basis
Assets			
Checking:			
General (Note 3)	\$ 201,102	\$ -	\$ 201,102
Endowment (Note 3)	16,979	-	16,979
Cash on hand:			
Petty cash (Note 3)	100	-	100
Register (Note 3)	85	-	85
Investments:			
TDL General Fund (Note 3)	258,091	-	258,091
TDL endowment income (Note 3)	85,033	-	85,033
TDL endowment (Note 3)	737,620	-	737,620
Penal fines receivable	115,014	-	115,014
Capital assets:			
Depreciable (Note 4)	-	1,843,108	1,843,108
Nondepreciable (Note 4)	-	348,000	348,000
Total assets	<u>\$ 1,414,024</u>	2,191,108	3,605,132
Liabilities			
Accounts payable	\$ 5,555	-	5,555
Employee-403 (b)	600	-	600
Employee-MIP	215	-	215
Employer-MIP	749	-	749
Kiwanis Summer Program	2,874	-	2,874
State withholding payable	478	-	478
State unemployment payable	755	-	755
Total liabilities	11,226	-	11,226
Fund Balance			
Reserved for restricted gifts	23,560	(23,560)	-
Unreserved:			
Designated for endowment	839,632	(839,632)	-
Designated for property tax budget year (Note 1)	300,440	(300,440)	-
Undesignated	239,166	(239,166)	-
Total fund balance	1,402,798	(1,402,798)	-
Total liabilities and fund balance	<u>\$ 1,414,024</u>		
Net Assets			
Invested in capital assets		2,191,108	2,191,108
Restricted for gifts		23,560	23,560
Unrestricted		1,379,238	1,379,238
Total net assets		<u>\$ 3,593,906</u>	<u>\$ 3,593,906</u>

Tecumseh District Library

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2004

	General Fund - Modified Accrual Basis	GASB No. 34 Adjustments (Note 2)	Statement of Activities - Full Accrual Basis
Revenue			
Property tax	\$ 588,839	\$ -	\$ 588,839
Penal fines - 2004 (Note 1)	115,014	-	115,014
Penal fines - 2003 (Note 1)	112,557	-	112,557
State aid	17,351	-	17,351
Photocopy fees	1,229	-	1,229
Fines and fees	7,052	-	7,052
General income	660	-	660
Gifts	40,528	-	40,528
Endowment income	<u>147,011</u>	<u>-</u>	<u>147,011</u>
Total revenue	1,030,241	-	1,030,241
Expenditures			
Salaries	100,558	-	100,558
Employee insurance	32,841	-	32,841
Staff development	5,209	-	5,209
Collections	53,360	(53,360)	-
Office	5,521	-	5,521
Programs and events	1,745	-	1,745
Professional services	23,945	-	23,945
Insurance	6,453	-	6,453
Communications	2,616	-	2,616
Utilities and services	25,595	-	25,595
Cleaning and maintenance	22,559	-	22,559
Capital outlay	37,786	(37,786)	-
Depreciation	<u>-</u>	<u>98,277</u>	<u>98,277</u>
Total expenditures	<u>318,188</u>	<u>7,131</u>	<u>325,319</u>
Excess of Revenue Over (Under) Expenditures/Change in Net Assets	712,053	(7,131)	704,922
Initial Resources/Net Assets - Beginning of year	<u>690,745</u>	<u>2,198,239</u>	<u>2,888,984</u>
Fund Balance/Net Assets - End of year	<u>\$ 1,402,798</u>	<u>\$ 2,191,108</u>	<u>\$ 3,593,906</u>

Tecumseh District Library

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Tecumseh District Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement requires the following:

A management's discussion and analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations

Financial statements prepared using full accrual accounting for the Library as a whole

As a result, these statements provide a dual perspective to the Library's finances as described below.

Reporting Entity

The Library was created on December 20, 2002 through a District Library Agreement entered into by the Tecumseh Public School District (the "School District") and the City of Tecumseh (the "City"); however, until June 30, 2003, the School District was responsible for all expenses of the Library and the Library continued to be reported as a fund of the School District.

On July 1, 2003, the Library became a totally independent district library. The Library services a portion of the residents of the Townships of Adrian, Franklin, Macon, Raisin, Ridgeway, and Tecumseh, as well as the City of Tecumseh. The Library is governed by a seven-member board elected from the Library District. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in the Library's financial report.

This is the first financial statement of the Library. Substantially all of the initial resources, or net assets, of the Library were turned over to the Library on July 1, 2003.

Note 1 - Summary of Significant Accounting Policies (Continued)

Because this is the first financial statement of the Library, the Library recognized penal fines remitted in August 2003 for the year ended June 30, 2003 and those penal fines remitted in August 2004 for the year ended June 30, 2004. Future years will recognize the revenue on a modified accrual method; however, this transition year made it necessary to report both years since the August 2003 receipt of penal fines was remitted to and property of the Library, and was not accrued by the School District in its prior year financial report.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both the Library's full accrual financial statements and modified accrual financial statements.

Full Accrual Financial Statements

The full accrual financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statement of net assets includes and recognizes all long-term assets. The Library's net assets are reported in three parts - invested in capital assets, restricted net assets, and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the full accrual financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Modified Accrual Financial Statements

The Library's modified accrual financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which is described below.

Tecumseh District Library

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

Governmental Fund

General Fund - The General Fund was established to account for the operations of the Library. The General Fund is funded principally by property taxes and penal fines.

Financial Statement Amounts

Cash and Cash Equivalents - The Library has defined cash and cash equivalents to include cash on hand and all highly liquid investments purchased with an original maturity of three months or less when acquired.

Capital Assets - Capital assets are generally defined by the Library as assets with an initial cost of more than \$100 and an estimated useful life in excess of one year. Library materials individually are typically less than \$100, but account for a significant amount of assets collectively. These materials are capitalized as a group in the year of purchase. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The building, library materials, and furniture, fixtures, and equipment are depreciated using the straight-line method over the following useful lives:

Building	30 years
Library materials	5 years
Furniture, fixtures, and equipment	5 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - The General Fund modified accrual basis financial statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Property Taxes - All trade and property tax receivables are shown as net of allowance for uncollectible amounts, if deemed necessary. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28, at which time penalties and interest are assessed.

The 2003 taxable valuation of the communities included in the Library District totaled approximately \$522,505,000, on which ad valorem taxes levied consisted of 1.150 mills for the Library's operating purposes. The ad valorem taxes levied based on this were approximately \$600,000. This amount, net of adjustments for Board of Review adjustments, Michigan Tax Tribunal adjustments, and personal property taxes returned delinquent, is recognized in the General Fund as tax revenue.

Since the Library's fiscal year covers the period from July 1 through the following June 30, as of the end of the fiscal year, the Library Board has designated one half of the December 1 levy to be used to finance the operations of the first half of the ensuing fiscal year. Accordingly, \$300,440 of property taxes related to the December 1 levy is reported as "designated for property tax budget year".

Note 2 - Reconciliation of the Library as a Whole and the General Fund Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differ from the net assets and change in net assets of the Library's activities reported in the governmental fund balance sheet/statement of net assets and the statement of governmental revenue, expenditures, and changes in fund balance/statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current focus of the governmental fund balance sheet and statement of governmental revenue, expenditures, and changes in fund balance.

Tecumseh District Library

Notes to Financial Statements June 30, 2004

Note 2 - Reconciliation of the Library as a Whole and the General Fund Financial Statements (Continued)

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Fund Balance - General Fund - Modified Accrual Basis	\$ 1,402,798
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Amounts reported in the statement of net assets are different because capital assets are not financial resources and are not reported in the funds	
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	<u>2,191,108</u>
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Net Assets - Full Accrual Basis	<u>\$ 3,593,906</u>
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Modified Accrual Basis	\$ 712,053
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Amounts reported in the statement of activities are different because:

Depreciation is recorded as an expense in the statement of net assets	(98,277)
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Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance	<u>91,146</u>
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Change in Net Assets - Full Accrual Basis	<u>\$ 704,922</u>
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Note 3 - Cash and Cash Equivalents

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Tecumseh District Library

Notes to Financial Statements June 30, 2004

Note 3 - Cash and Cash Equivalents (Continued)

The investment policy adopted by the Board authorizes the Library to invest in all instruments described above. In addition, the policy allows the Library to invest donations in the manner directed by the donor in accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976 and as amended. The investment in common stock was received as the result of a donation to the Library, and was not an investment acquired by the Library from their investable surplus funds.

The Library's cash and cash equivalents at June 30, 2004 are composed of the following and the deposits and investments were reported in the basic financial statements in the following categories:

Deposits:	
Checking	\$ 218,081
Cash on hand	185
Investments	<u>1,080,744</u>
Total	<u>\$ 1,299,010</u>

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$221,855. Of that amount, approximately \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits Library funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library at June 30, 2004. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Library or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. The Library does not have Category 2 or Category 3 investments.

Tecumseh District Library

Notes to Financial Statements June 30, 2004

Note 3 - Cash and Cash Equivalents (Continued)

At year end, the Library's investment balances were categorized as follows:

	Reported Amount (Fair Value)
Category I investments:	
Common stock received as a donation to the Library	\$ 131,533
Money market funds	145,361
U.S. government securities	<u>803,850</u>
Total	<u>\$ 1,080,744</u>

All investments are considered Category I investments since they are held by United Bank & Trust's Trust & Investment Group on behalf of the Library.

Included in the Library's investments at June 30, 2004 is \$479,201 of obligations of the Federal National Mortgage Association and Federal Home Loan Bank. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Tecumseh District Library

Notes to Financial Statements June 30, 2004

Note 4 - Capital Assets

Capital asset activity of the Library was as follows:

	Balance July 1, 2003*	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated - Land	\$ 348,000	\$ -	\$ -	\$ 348,000
Capital assets being depreciated:				
Building	1,740,000	-	-	1,740,000
Library materials	50,272	53,360	-	103,632
Furniture, fixtures, and equipment	59,967	37,786	-	97,753
Subtotal	1,850,239	91,146	-	1,941,385
Less accumulated depreciation	-	(98,277)	-	(98,277)
Net capital assets being depreciated	1,850,239	(7,131)	-	1,843,108
Net capital assets	<u>\$ 2,198,239</u>	<u>\$ (7,131)</u>	<u>\$ -</u>	<u>\$ 2,191,108</u>

Capital assets, including library materials, are recorded at cost or estimated historical cost if original records are not available. Depreciation expense was \$98,277 for the year ended June 30, 2004.

* The July 1, 2003 balances represent the fair market value at the date the assets were donated by the School District and the City.

Note 5 - Risk Management

The Library is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to cover these risks. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 6 - Retirement Plans

Plan Description - Certain employees of the Library who were originally employed by the School District are eligible to participate in the Michigan Public Schools Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at, P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the system are the result of implementation of the Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits.

The pension rate totaled 12.99 percent for the period from October 1, 2002 through June 30, 2004 of the covered payroll of the plan. Basic plan members make no contributions. The Library's contributions totaled approximately \$9,000 for the year ended June 30, 2004, which equaled the required contribution in accordance with the requirements above.

Required Supplemental Information

Tecumseh District Library

Note to Required Supplemental Information June 30, 2004

Note - Budgetary information

The annual budget of the General Fund was prepared by the Library in three distinct phases. On May 21, 2003, the Library adopted an "Austerity Budget". This budget assumed minimal activity and budgeted activity on a month-by-month basis.

On July 23, 2003, the Library adopted a new "Original Budget", in anticipation of a new property tax millage. This budget was reformatted to a more user-friendly format and a final "Amended Budget" was adopted on July 14, 2004.

The Austerity Budget and the Original Budget are presented separately in the required supplemental information section. The Amended Budget in its final format is compared to actual operations in the required supplemental information as well. The budget was adopted by the Board; subsequent amendments and reformatting were approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual - General Fund) is presented on the same basis of accounting used in preparing the adopted budget.

The General Fund budget has been adopted by line item detail; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget is included in the required supplemental information.

As described in the notes to financial statements, the Library Board considers one half of the taxes levied on December 1 to relate to the first half of the following fiscal year. As such, this amount is reported as a designation of fund balance at June 30, 2004.

Tecumseh District Library

Required Supplemental Information Austerity Budget Schedule - General Fund Year Ended June 30, 2004

	July	August	September	October	November	December
Revenue						
Penal fines	\$ -	\$ 85,000	\$ -	\$ -	\$ -	\$ -
Endowment dividends	-	-	900	-	-	900
Endowment interest	7,400	-	2,200	2,100	1,000	1,600
Other interest	50	50	50	50	50	50
Total revenue	<u>\$ 7,450</u>	<u>\$ 85,050</u>	<u>\$ 3,150</u>	<u>\$ 2,150</u>	<u>\$ 1,050</u>	<u>\$ 2,550</u>
Expenditures						
Personnel costs:						
Salaries and wages:						
Professionals	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000
Assistants	400	400	400	400	400	400
Total salaries and wages	8,400	8,400	8,400	8,400	8,400	8,400
Benefits and taxes:						
Health/Dental/Vision/Life	2,000	2,000	2,000	2,000	2,000	2,000
Retirement	1,050	1,050	1,050	1,050	1,050	1,050
Workers' compensation	100	100	100	100	100	100
FICA	650	650	650	650	650	650
Total benefits and taxes	3,800	3,800	3,800	3,800	3,800	3,800
Total personnel costs	12,200	12,200	12,200	12,200	12,200	12,200
Operating costs:						
Professional services:						
Legal	-	1,000	-	-	-	-
Bookkeeping	350	350	350	475	350	350
Total professional services	350	1,350	350	475	350	350
Contracted services - Election expense	-	1,000	3,000	300	-	-
Building maintenance:						
Cleaning	1,500	1,500	1,500	1,500	1,500	1,500
Grounds	600	600	600	600	600	600
Equipment	300	300	300	300	300	300
Total building maintenance	2,400	2,400	2,400	2,400	2,400	2,400
Communications:						
Telephone	200	200	200	200	200	200
Long distance	50	50	50	50	50	50
Internet access	20	20	20	20	20	20
Total communication	270	270	270	270	270	270
Utilities:						
Electric	1,500	1,500	1,500	1,500	1,500	1,500
Gas	50	50	100	800	1,200	1,200
Water and sewer	-	-	-	-	135	-
Total utilities	1,550	1,550	1,600	2,300	2,835	2,700

Tecumseh District Library

Required Supplemental Information Austerity Budget Schedule - General Fund (Continued) Year Ended June 30, 2004

	July	August	September	October	November	December
Expenditures (Continued)						
Operating costs (Continued):						
Insurance - Liability and property	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ 2,500
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Total operating costs	<u>5,570</u>	<u>7,570</u>	<u>11,120</u>	<u>6,745</u>	<u>6,855</u>	<u>9,220</u>
Total expenditures	<u>\$ 17,770</u>	<u>\$ 19,770</u>	<u>\$ 23,320</u>	<u>\$ 18,945</u>	<u>\$ 19,055</u>	<u>\$ 21,420</u>
Summary						
Cash Balance - Beginning of month	\$ 66,400	\$ 56,080	\$ 121,360	\$ 101,190	\$ 84,395	\$ 66,390
Total Revenues	7,450	85,050	3,150	2,150	1,050	2,550
Total Expenditures	<u>17,770</u>	<u>19,770</u>	<u>23,320</u>	<u>18,945</u>	<u>19,055</u>	<u>21,420</u>
Cash Balance - End of month	<u>\$ 56,080</u>	<u>\$ 121,360</u>	<u>\$ 101,190</u>	<u>\$ 84,395</u>	<u>\$ 66,390</u>	<u>\$ 47,520</u>

Tecumseh District Library

Required Supplemental Information Original Budget Schedule - General Fund Year Ended June 30, 2004

	Original Budget
Revenue	
Property tax	\$ 577,468
Penal fines	85,000
State aid	13,000
Fines and fees	14,337
Total revenue	689,805
Expenditures	
Staff expenditures:	
Professionals:	
Director	50,000
Assistant director (adult services)	35,000
Youth services coordinator	31,824
Technical services supervisor	25,896
Total professionals	142,720
Other employees:	
Part-time library assistants	69,524
Part-time clerk	9,932
Pages	14,500
Custodian	26,000
Total other employees	119,956
Benefits:	
Health/Dental/Vision/Life insurance	38,437
Retirement	16,500
FICA	20,095
Workers' compensation	1,079
Unemployment	3,900
Total benefits	80,011
Staff development:	
Professional memberships	1,625
Travel, conferences, and seminars	3,890
Recruitment	1,000
Total staff development	6,515
Total staff expenditures	349,202

Tecumseh District Library

Required Supplemental Information Original Budget Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget
Expenditures (Continued)	
Operating expenditures:	
Supplies:	
Postage	\$ 4,000
Office	3,640
Library	11,294
Cleaning	1,500
Programs	4,482
Total supplies	24,916
Professional services:	
Legal	10,000
Bookkeeping/Payroll	6,000
Audit	4,950
Technology support	20,000
Bank charges	100
Total professional services	41,050
Services, contracts, and licenses:	
Tax collection	10,000
Election	6,000
Printing	1,250
Binding	500
Contract services	15,443
Licenses and permits	7,400
Trash collection	800
Public pay phones	900
Total services, contracts, and licenses	42,293
Insurance:	
Property/Liability	8,006
Directors and officers	1,305
Special event	1,000
Total insurance	10,311
Utilities:	
Electricity	17,000
Gas	10,700
Water and sewer	912
Total utilities	28,612

Tecumseh District Library

Required Supplemental Information Original Budget Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget
Expenditures (Continued)	
Operating expenditures (Continued):	
Communications:	
Telephone	\$ 3,142
Internet	6,000
Total communications	9,142
Collections:	
Books	57,200
Software	8,112
Audio/Visual	13,686
Periodicals	11,270
Total collections	90,268
Building and grounds:	
Building maintenance	2,600
Grounds maintenance	4,810
Equipment maintenance	3,131
Total building and grounds	10,541
Funds:	
Capital improvement:	
Building	28,600
Grounds/Parking/Lighting	3,467
Equipment	16,278
Technology	3,000
Contingency	32,125
Total funds	83,470
Total operating expenditures	340,603
Total expenditures	689,805
Excess of Revenues Over Expenditures	-
Initial Resources - Beginning of year	690,745
Fund Balance - End of year	\$ 690,745

Tecumseh District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Amended Budget	Actual	Variances Over (Under) Amended Budget
Revenues			
Property tax	\$ 577,468	\$ 588,839	\$ 11,371
Penal fines - 2004	-	115,014	115,014
Penal fines - 2003	85,000	112,557	27,557
State aid	13,000	17,351	4,351
Photocopy/Fax fees	-	1,229	1,229
Fines and fees	14,337	7,052	(7,285)
General income	-	660	660
Gifts	-	40,528	40,528
Endowment income	-	147,011	147,011
Total revenues	689,805	1,030,241	340,436
Expenditures			
Staff expenditures:			
Salary:			
Director	50,000	8,000	(42,000)
Adult services librarian	35,000	-	(35,000)
Youth services coordinator	31,824	29,442	(2,382)
Tech. services coordinator	25,896	15,996	(9,900)
Building engineer	26,000	14,723	(11,277)
Library assistant	69,524	29,630	(39,894)
Administrative assistant	9,932	1,304	(8,628)
Page	14,500	1,463	(13,037)
Total salaries	262,676	100,558	(162,118)
Employee insurance:			
Life	789	224	(565)
Health	33,774	11,634	(22,140)
Dental	2,500	632	(1,868)
Vision	471	129	(342)
Disability	903	577	(326)
Workers' compensation	1,079	623	(456)
Payroll taxes	23,995	10,055	(13,940)
Retirement	16,500	8,967	(7,533)
Total insurance	80,011	32,841	(47,170)

Tecumseh District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Amended Budget	Actual	Variances Over (Under) Amended Budget
Expenditures (Continued)			
Staff expenditures (Continued):			
Staff development:			
Professional memberships	\$ 1,625	\$ 1,943	\$ 318
Travel	1,945	362	(1,583)
Training	1,945	797	(1,148)
Recruitment	1,000	2,107	1,107
Total staff development	6,515	5,209	(1,306)
Total staff expenditures	349,202	138,608	(210,594)
Operating expenditures:			
Collections:			
Books	57,200	19,444	(37,756)
Periodicals	11,270	15,967	4,697
Audio-Visual	13,686	2,485	(11,201)
Software - Public use	13,037	4,490	(8,547)
Software - Staff use	2,475	2,738	263
Leased materials	1,866	3,761	1,895
Replacement materials	-	50	50
Binding	500	-	(500)
Processing materials	11,294	4,425	(6,869)
Total collections	111,328	53,360	(57,968)
Office:			
Office supplies	3,740	3,648	(92)
Postage	4,000	1,001	(2,999)
Printing and publishing	1,250	359	(891)
Portfolio management fees	-	513	513
Total office	8,990	5,521	(3,469)
Programs and events:			
Program supplies	4,482	1,334	(3,148)
Event supplies	-	411	411
Total programs and events	4,482	1,745	(2,737)
Professional services:			
Legal	10,000	2,955	(7,045)
Bookkeeping	6,000	7,249	1,249
Audit	4,950	-	(4,950)
Co-op fees	6,500	8,697	2,197
Election expense	6,000	5,044	(956)
Tax collection	10,000	-	(10,000)
Total professional services	43,450	23,945	(19,505)

Tecumseh District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Amended Budget	Actual	Variances Over (Under) Amended Budget
Expenditures (Continued)			
Operating expenditures (Continued):			
Insurance:			
Liability insurance	\$ 4,940	\$ 3,333	\$ (1,607)
Property insurance	4,371	3,120	(1,251)
Special event insurance	1,000	-	(1,000)
Total insurance	10,311	6,453	(3,858)
Communications:			
Telephone	4,042	1,932	(2,110)
Internet	6,000	684	(5,316)
Total communications	10,042	2,616	(7,426)
Utilities and services:			
Electric	17,000	14,638	(2,362)
Gas	10,700	9,239	(1,461)
Water and sewer	912	545	(367)
Trash collection	800	658	(142)
Snow removal	-	515	515
Total utilities and services	29,412	25,595	(3,817)
Cleaning and maintenance:			
Cleaning supplies	1,500	295	(1,205)
Maintenance supplies	-	2,040	2,040
Building maintenance	2,600	11,352	8,752
Grounds maintenance	4,810	923	(3,887)
Equipment maintenance	30,208	7,949	(22,259)
Total cleaning and maintenance	39,118	22,559	(16,559)
Total operating expenditures	257,133	141,794	(115,339)
Capital outlay:			
Land improvements	3,467	-	(3,467)
Building	28,600	3,970	(24,630)
Equipment	19,278	33,816	14,538
Undistributed	32,125	-	(32,125)
Total capital outlay	83,470	37,786	(45,684)
Total expenditures	689,805	318,188	(371,617)
Excess of Revenue Over Expenditures	-	712,053	712,053
Initial Resources - Beginning of year	690,745	690,745	-
Fund Balance - End of year	<u>\$ 690,745</u>	<u>\$ 1,402,798</u>	<u>\$ 712,053</u>

September 23, 2004

To the Board of Trustees
Tecumseh District Library
215 N. Ottawa Street
Tecumseh, MI 49286

Dear Board of Trustees:

We have completed our audit of the basic financial statements of the Tecumseh District Library for the year ended June 30, 2004. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Board of Trustees, and others within the organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the basic financial statements of the Tecumseh District Library in accordance with auditing standards generally accepted in the United States of America. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material effect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of company documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure or the entity's compliance with laws and regulations.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and regulations. To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users may still be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended June 30, 2004, we were not engaged nor did we perform the additional services listed in 1 and 2 above.

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There is one significant unusual transaction which is related to the fact that this is your initial year of operation as an independent library and your transition from the school district. The financial report for the year ended June 30, 2004 includes the recording of penal fine revenue related to both the years ended June 30, 2003 and 2004. This unusual situation, caused by the transition, is described in the Notes to Financial Statements and we concur with the recording in the initial year. After this transitional year, the Library will record penal fines on a modified accrual basis of accounting related to the year under audit.

With the exception just described, there were no significant unusual or controversial or significant emerging areas for which new accounting policies were needed.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted no matters related to sensitive accounting estimates.

Significant Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, the only significant adjustments made were to adjust the Library's investments for unrealized gains, record the accrual of penal fines receivable which related to the fiscal year ended June 30, 2004 and to adjust classifications of fund balance designations in the General Fund.

Auditing standards also require us to inform you about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no significant unrecorded possible financial statement adjustments.

The Governmental Accounting Standards Board (GASB) has issued GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This pronouncement was implemented for the fiscal year ended June 30, 2004 and significantly changed the makeup and presentation of most Libraries' annual audited financial statements. As this is the first time you have issued your own audited financial report, these requirements have been incorporated into your June 30, 2004 financial report. Some of these new requirements include the addition of a management's discussion and analysis section prepared by the Library's management and the addition of a financial statement prepared on a full accrual method. The new financial statement model is intended to provide information about both the Library's current financial and total economic resources and will supplement the Library's current reporting perspective. It includes concepts previously not used in governmental financial statements such as the capitalization and depreciation of assets.

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document.

Disagreements with Management

There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation with Other Accountants

To our knowledge, there were no such consultations with other accountants.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver